

VZCZCXRO2714  
PP RUEHDE RUEHDIR  
DE RUEHRH #1660/01 3091416  
ZNY SSSSS ZZH  
P 041416Z NOV 08  
FM AMEMBASSY RIYADH  
TO RUEHC/SECSTATE WASHDC PRIORITY 9507  
INFO RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE PRIORITY  
RUEHHH/OPEC COLLECTIVE PRIORITY

S E C R E T SECTION 01 OF 02 RIYADH 001660

NOFORN  
SIPDIS

DHAHRAN SENDS,  
STATE FOR NEA/ARP, EEB/ESC/IEC

E.O. 12958: DECL: 11/03/2018  
TAGS: [ECON](#) [EFIN](#) [EINV](#) [EPET](#) [SA](#)  
SUBJECT: MAJOR SAUDI INDUSTRIALIST OPTIMISTIC ON EP ECONOMY

REF: RIYADH 00867

Classified By: DHAHRAN CG JOSEPH KENNY FOR REASONS 1.4 (B), (D)

11. (C) Summary: On October 22, Consul General Kenny made an introductory visit to Mr. Abdulla al-Rushaid, an influential and prominent industrialist in the Eastern Province (EP) of Saudi Arabia. Al-Rushaid is strongly optimistic about the future of the oil-rich EP economy. He indicated that the global slow down may actually help the region move forward with its ambitious large scale petrochemical and other industrial projects, citing the sharp drop in the cost for raw materials and skilled workers. Al-Rushaid's own business ventures lend concrete support to his overall positive outlook, as he continues to launch several new large scale projects in the midst of the economic crisis. Though he acknowledges vulnerabilities in the region's burgeoning petrochemical industry, he remains hopeful that it will ride out the storm. End Summary.

-----  
The al-Rushaid Group  
-----

12. (C) The Dhahran Consul General met with Abdulla R. al-Rushaid, a well-connected and prominent businessman in the EP, at his al-Khobar office. The Commercial Attache and EconOff also attended the meeting. Al-Rushaid is owner and chairman of the al-Rushaid Group, an umbrella organization consisting of various interests in and partnerships with over 40 companies worldwide. He has partnered with many major oil and gas services companies active in the region and employs 28,000 people in the Eastern Province (EP) alone. His business is heavily focused on the hydrocarbon industry, in particular oil exploration, extraction and petrochemicals. (Comment: As a former fifteen-year employee of Saudi Aramco and longtime oil and gas services provider to the company, al-Rushaid is widely considered to be a well-connected insider in senior Saudi Aramco executive circles. End Comment.)

-----  
The Economic Outlook is Bright for the EP  
-----

13. (C) Al-Rushaid is bullish on the economic outlook for Saudi Arabia, particularly the oil-rich EP. However, he does not share the same optimism for Europe, the US or even other Gulf countries like the United Arab Emirates or Qatar. In his estimation, Saudi Arabia will be shielded from the brunt of the global financial crisis because of the Saudi Arabian Government's (SAG) recent liquidity and bank guarantees, a reference to the Saudi Arabian Monetary Agency's (SAMA) October 16 announcement that it would guarantee the liquidity and deposits of Saudi banks. SAMA held true to their word when a week later they infused more than two billion USD into

the Saudi financial system. In addition, al-Rushaid cited the sharp drops in the demand of industrial inputs such as steel and skilled workers resulting from the current global economic downturn. He believes that these lower costs bode well for the types of large-scale industrial projects prevalent in the EP, where recruitment of qualified workers has been a constant challenge. In fact, companies have had to extend their recruitment reach deep into the Asian subcontinent and Asia for positions that ordinarily would have been filled by western personnel.

14. (S/NF) The oil services tycoon was quick to offer his own business projects as proof positive that his optimistic view of the EP holds water. For example, earlier in October 2008, al-Rushaid was in Kansas City visiting WireCo, the leading manufacturer of wire rope and cable, finalizing a joint venture (JV) to manufacture wire cables in the EP. Despite the recessionary fears and the plummeting price of oil, they signed the JV and will go forward with the project. (Comment: This JV has not been made public yet and al-Rushaid was deliberate and cautious in what information he shared with the CG. Please protect. End Comment.) He also hinted that he is in the process of signing two other JVs that will establish operations in the EP, though he was not forthcoming with details. He noted that he preferred entering JVs with western companies because they often supply effective managers, which, in his opinion, is a difficult human resource to come by in the Gulf.

15. (S/NF) Further bolstering the credibility of his encouraging outlook for the region, he confirmed that two large-scale Saudi Aramco projects will go forward despite the

RIYADH 00001660 002 OF 002

current economic turmoil: a 400,000 barrels per day (bpd) refinery in Jubail (JV with Total of France) and construction of a 600,000 square meter offshore oil platform near Dammam (JV with Saipem of Italy). Though there have been rumors of possible delays on these projects, al-Rushaid said he knows for a fact that they will continue as planned since his company is providing some of the metal fabrication and construction services. He commented that the fabrication of the oil platform alone would create tens of thousands of jobs.

-----  
The Petrochemical Industry is Vulnerable  
-----

16. (C) When the conversation turned to the petrochemical industry, al-Rushaid admitted that the sector may be vulnerable because of possible shortages of cheap Saudi gas feedstock (reftel). Currently, the Saudi petrochemical industry pays 0.75 USD per million British thermal units (Btu), more than a 800% discount on the Oct 27 Henry Hub spot price of 6.27 USD per million Btu. (Note: The Henry Hub spot price is the internationally accepted benchmark for natural gas prices. End Note.) He said that plans to construct 60 new chemical plants were halted because Saudi Aramco could not guarantee delivery of enough cheap gas.

17. (S/NF) He also cited Saudi Aramco and its JV partners' failure to find large deposits of non-associated gas in the Empty Quarter (Rub al-Khali) (reftel), as evidence that the days of highly discounted gas feedstock are numbered. He predicts that the discounted price of gas for the Saudi petrochemical industry will rise to between 3.00 and 4.00 USD per million Btu. If al-Rushaid is correct, such a large spike in the cost of gas feedstock would certainly slow growth prospects for the industry. Furthermore, market prices for natural gas have tanked in the past couple months from highs above 13.00 USD per million Btu as recently as July 3 to the current price of 6.27 USD (mentioned above in paragraph 6). A continuing slide in market prices for gas would further negate the cost advantage that Saudi petrochemical projects currently enjoy over their foreign competitors.

¶8. (C) Despite al-Rushaid's concerns regarding the petrochemical industry, he still believes that the industry holds "unlimited" potential. He specifically cited the proposed JV between Saudi Aramco and US-based Dow Chemicals to build a reported 26 billion USD petrochemicals complex in Ras Tanura. Al-Rushaid excitedly commented, "If the Dow project goes through, then there will be lots of work!"

¶9. (C) Comment: Though al-Rushaid is bullish on the EP economy and appears to have the evidence to back it up, the broader macroeconomic slowdown may hit the EP harder than al-Rushaid or other regional business leaders would like to concede. With the price of oil and gas nose diving, it is difficult to imagine that the EP will not feel at least part of the impact of the global recession. The petrochemical industry may be most at risk as heavily discounted gas feedstock will not continue indefinitely and global demand for their products declines in large consumer markets like the US, EU, and Asia.

¶10. (C) On al-Rushaid's own admission, his company is dependent on the hydrocarbon industry. This fact likely skews his optimistic outlook for the EP economy as his business would be severely impacted by a major economic slow down in the region. However, al-Rushaid claims that because his company owns significant stakes in companies outside of the Gulf (the UK, US and Asia) he has enough "geographic diversification" to make up for his dependence on the hydrocarbon industry. While al-Rushaid's assertion that the EP's economy will fair better than most others over the next few years may be credible, the looming global recession would lead a savvy investor to hedge their bets. End Comment.

(Approved: JKenny)  
RUNDELL